



TO: EVERGREEN EAST HILLS STRATEGY TASK FORCE
FROM: JOE HEAD, STEVE DUNN, PATRICK SPILLANE & MIKE HILL
SUBJECT: CAMPUS INDUSTRIAL OPPORTUNITY SITE
RESIDENTIAL CONVERSION FISCAL IMPACT REPORT
DATE: 8/18/2006

Dear Task Force members:

One of the major policy recommendations this task force must forward to the City Council is how best to utilize land currently planned for industrial uses. To assist task force members in making a well-informed decision, specifically with regards to the financial impact to the city and the viability of the sites for potential industrial use, Yerba Buena Opco, one of the six property owners comprising the Evergreen East Hills Housing Group, commissioned an in-depth analysis of the industrial sites conducted by commercial real estate expert CBRE Consulting.

CBRE Consulting is a full-service real estate and urban economics-consulting firm. CBRE Consulting has extensive experience in real estate market and financial analysis and has performed similar services for private sector clients and public sector entities such as the Cities of San Jose, San Francisco, Oakland, Los Angeles, San Diego, and Sacramento.

Attached is the full report for your review. In summary, the key conclusions are as follows:

- 1. Our residential conversion proposal, on a net present value basis, has a positive net fiscal impact for the City, even when projecting out on a net present value basis over the next 30 years: \$6.4 Million net positive over the first 10 years; \$5.4 Million over the first 20 years, and \$2.6 Million through 30 years.**
- 2. These industrial sites have an over 20-year history of inactivity, and would not reach full-build out until 2036.** Further, the analysis concludes that there will be no industrial development activity until at least 2011.

It is important to note that the analysis makes extremely aggressive assumptions about the leasing, development and demand for industrial sites in the South San Jose submarket.

In an effort to be overly cautious, the analysis assumed industrial demand and growth that far exceeded previous performance trends for the South San Jose Submarket and assumes industrial-user interest in the Evergreen sites that has never existed since the City converted the area from residential to industrial designations. Regardless, the results demonstrate that if even if the Task Force and the City take a long-term, 30-year view of our proposal, it will financially benefit the City.

Notwithstanding the aggressive assumptions in the CBRE Consulting report, we feel it is important that the task force consider the following factors as it relates to the industrial sites:

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1. The industrial sites have sat largely dormant since the early 1980's when they first were rezoned during the "Berryessa Swap."
2. During the 1990's, the largest boom in industrial leasing in the last thirty years, not a single lease was signed on the Evergreen industrial sites. These sites were aggressively marketed by several top commercial leasing firms, and owned by well-established industrial users with no success.
3. The sites lack three key needs for successfully locating industrial uses: easy freeway access, transit connections, and visibility.
4. The surrounding uses are all residential.
5. Residential development on these sites is critical to ensuring the entire EEHVS project is successful as they generate the largest share of fees for transportation improvements and amenities.

The Task Force recommendation and City Council's decision on the best use for the industrial sites should be based on a realistic market analysis, and factual data, as opposed to anecdotal evidence and overly broad generalizations regarding residential and industrial uses. We are confident that this analysis by CBRE Consulting will assist you in making an informed decision.

We look forward to further discussion on this matter with the task force at our next meeting.